

## INSTRUCTIONS—FORM 741

### KENTUCKY FIDUCIARY INCOME TAX RETURN

#### WHO MUST FILE

Every fiduciary must file a return for the following even though all income may be distributed or distributable: (1) every estate with gross income for the taxable year of \$1,200 or over; (2) every trust with gross income for the taxable year of \$100 or over.

#### WHEN AND WHERE TO FILE

Taxpayers must file within three months and 15 days after the close of their taxable year.

Mail the return to the Kentucky Revenue Cabinet, Frankfort, KY 40618-0006.

#### FIDUCIARY INCOME

*Kentucky income tax law is based on the federal income tax law in effect on December 31, 1997.* The Revenue Cabinet generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists. Kentucky law requires taxpayers to report income on the same calendar or fiscal year and to use the same methods of accounting as required for federal income tax purposes. See Form 740 instructions or contact the Revenue Cabinet for more information.

All taxable income received by the fiduciary must be reported on Lines 1 through 9, page 1, and the applicable schedules completed on page 2. **Use Kentucky amounts for reporting all income and deductions.**

Schedule P should be used to report any excludable retirement income of a decedent. The excludable amount from Schedule P, Line 5, should reduce the amount of pension or retirement income reported on Line 8.

If the fiduciary has business income (loss) or farm income (loss), complete and attach federal Schedule C, C-EZ or F, using Kentucky amounts.

If the fiduciary is reporting the Kentucky transition amount over four years (carryover amount), enter the amount from the 1994 Form 762TS, Line 5. Attach a copy of the 1994 Form 762TS.

#### ADMINISTRATION EXPENSES (KRS 140.090(h))

In the case of a decedent's estate, if the election was made not to deduct costs of administration, including attorney's fees actually allowed and paid, on a Kentucky inheritance tax return (92A101, 92A120, 92A120-S, 92A120-X), these expenses may be deducted on Form 741. A statement waiving the right to deduct these expenses for inheritance tax purposes must also be filed with Form 741.

#### BENEFICIARIES' SHARES OF INCOME AND DEDUCTIONS

**Each beneficiary's share of income, deductions, credits, etc., must be reported on a separate Schedule K-1 (Form 741) and filed with Form 741.** A copy must be given to the beneficiary and a copy retained by the fiduciary.

The income distributed or distributable to beneficiaries is the amount on page 1, Line 19. Each beneficiary is required to include the distributed or distributable share of income, as shown on Schedule K-1, on the individual income tax return. The name and identification number of each beneficiary should be entered as it appears on the individual return.

Generally, federal rules and regulations apply but amounts reported may be different due to differences in Kentucky and federal laws, i.e., statutorily exempt income, U.S. government bonds, municipal interest, etc.

#### FEDERAL ESTATE TAX DEDUCTION

Refer to federal Form 1041 for the definition of the federal estate tax deduction.

The federal estate tax deduction **does not include** fiduciary income tax paid on federal Form 1041. A copy of the computation for the deduction **must** be attached to Form 741.

#### NONRESIDENT BENEFICIARIES

A nonresident beneficiary is subject to tax only on income received from real or tangible personal property located in Kentucky. If the income is distributed or distributable to a nonresident beneficiary, complete Schedule K-1 (Form 741).

#### TAX COMPUTATION

Any tax shown to be due in the computation of tax on page 1 of the return must be paid in full at time of filing. Attach check payable to the **Kentucky State Treasurer**.

To claim credit(s) from Schedule UTC, Unemployment Tax Credit, and/or Schedule RC, Application for Income Tax Credit for Recycling and/or Composting Equipment, add the credit to the amount on Line 30 and identify as "UTC or RC credit."

Enter on Line 32 all estimated tax payments, credit from the previous year's return and/or extension payments.

Also, if Kentucky income tax was erroneously withheld on income in respect of a decedent, attach a copy of the wage and tax statement of the deceased to Form 741. Enter on Line 32 the amount of withholding.

PENALTY AND INTEREST

**Late Filing Penalty**—If a return is not filed by the due date or the extended due date, a penalty of 2 percent of the total tax due for each 30 days or fraction thereof that a return is not filed may be assessed, not to exceed 20 percent. The minimum penalty is \$10.

**Late Payment Penalty**—If the amount of tax due as shown on Line 33 is not paid by the original due date of the return, a penalty of 2 percent of the tax computed due may be assessed for each 30 days or fraction thereof that the tax is past due, not to exceed 20 percent. The minimum penalty is \$10. However, if the amount timely paid is 75 percent of the tax determined due by the Revenue Cabinet, no late payment penalty will be assessed.

**Interest**—Interest will be assessed at the "tax interest rate" from the original due date of the return until the date of payment.

**Note:** Penalties but not interest may be reduced or waived if reasonable cause for reduction or waiver can be shown.

SIGNATURE

To be valid, this return must be signed by the fiduciary or agent. If prepared by a person other than fiduciary or agent, type or print name of person preparing the return.

SCHEDULE K-1 INSTRUCTIONS

**Kentucky Resident Beneficiaries (Form 740 Filers)**—To determine the net difference between the federal Schedule K-1 amounts and the Kentucky Schedule K-1 amounts, complete Lines 12, 13 and 14. This will adjust the items of income, loss and deductions used to compute the federal adjusted gross income to the Kentucky amounts shown in Column (b), Schedule K-1.

**Lines 12 and 13**—Include on these lines, the Kentucky Schedule K-1 and federal Schedule K-1 amounts from Lines 1 through 5. Also include the amounts from Lines 8, 9 and 10 (Kentucky) and Lines 12 and 13 (federal) that do not pass through to Schedule A as itemized deductions.

**Note:** If Form 8582-K is required, do not include on Lines 12 and 13 passive income or losses. Complete the passive activities adjustment worksheet (Form 8582-K, page 2) to determine additions to or subtractions from federal adjusted gross income.

If amounts on Lines 3(a) and 3(b) are subject to the capital loss limitations, do not include on Lines 12 and 13. Complete federal Schedule D using Kentucky amounts to determine additions to or subtractions from federal adjusted gross income.

**Line 14**—Enter difference of Lines 12 and 13.

ADDITIONAL INFORMATION

For further information, refer to KRS 141.190, KRS 141.010, Kentucky Administrative Regulation 103 KAR 19:010 and instructions for federal Form 1041.

If you need further assistance, contact a local Kentucky Taxpayer Service Center or the Revenue Cabinet, Frankfort, Kentucky 40620, (502) 564-4581 or (502) 564-3058 (Telecommunication Device for the Deaf).

*The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.*

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Kentucky Revenue Cabinet  
Mission Statement

To provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.